

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES -**

May 2, 2003



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To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the Elliott County Sheriff's Settlement - 2002 Taxes as of May 2, 2003.

We engaged Morgan-Franklin, LLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC, evaluated the Elliott County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ELLIOTT COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

May 2, 2003

Morgan-Franklin, LLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Elliott County Sheriff as of May 2, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$950,567 for the districts for 2002 taxes, retaining commissions of \$39,555 to operate the Sheriff's office. The Sheriff distributed taxes of \$904,145 to the districts for 2002 Taxes. Taxes of \$93 are due to the districts from the Sheriff.

Debt Obligations:

None.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

Subsequent Event:

None.

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***Morgan-Franklin, LLC
Certified Public Accountants
PO Box 428
513 Main Street
West Liberty, Kentucky 41472***

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the Elliott County Sheriff's Settlement - 2002 Taxes as of May 2, 2003. This tax settlement is the responsibility of the Elliott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Elliott County Sheriff's taxes charged, credited, and paid as of May 2, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
September 5, 2003

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

May 2, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 131,110	\$ 198,511	\$ 397,023	\$ 124,647
Tangible Personal Property	3,407	4,194	11,180	5,741
Intangible Personal Property				3,011
Increases Through Exonerations	233	319	704	221
Franchise Corporation	27,327	33,177	88,588	
Additional Billings	25,511	34,808	77,807	25,875
Unmined Coal - 2002 Taxes	61	84	186	58
Oil and Gas Property Taxes	5,825	8,000	17,640	5,538
Bank Franchises	8,135			
Penalties	1,478	2,053	4,480	1,420
Adjusted to Sheriff's Receipt	(31,333)	(58,551)	(95,568)	(31,550)
Gross Chargeable to Sheriff	<u>\$ 171,754</u>	<u>\$ 222,595</u>	<u>\$ 502,040</u>	<u>\$ 134,961</u>
<u>Credits</u>				
Exonerations	2,060	2,831	6,237	1,958
Discounts	1,633	2,092	4,553	1,469
Delinquents:				
Real Estate	6,513	9,019	19,722	6,192
Tangible Personal Property	528	650	1,732	1,010
Delinquent Unmined Coal - 2002 Taxes	22	30	65	20
Uncollected Franchise	2,435	2,185	7,827	
Total Credits	<u>\$ 13,191</u>	<u>\$ 16,807</u>	<u>\$ 40,136</u>	<u>\$ 10,649</u>
Taxes Collected	\$ 158,563	\$ 205,788	\$ 461,904	\$ 124,312
Less: Commissions *	<u>7,027</u>	<u>8,481</u>	<u>18,476</u>	<u>5,571</u>
Taxes Due	\$ 151,536	\$ 197,307	\$ 443,428	\$ 118,741
Taxes Paid	142,459	181,820	461,290	118,576

* See Page 4

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 RONNIE STEPHENS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 May 2, 2003
 (Continued)

Refund of Commissions From School			(18,467)	
Advancement to County	8,899			
Advancement to Ambulance Service		15,200		
Refunds (Current and Prior Year)	<u>180</u>	<u>232</u>	<u>559</u>	<u>171</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (2)</u>	<u>\$ 55</u>	<u>\$ 46</u>	<u>\$ (6)</u>

* Commissions:

10% on	\$	10,000
4.25% on	\$	372,831
4% on	\$	567,736

** Special Taxing Districts:

Health District	\$	54
Extension District		1
Forestry District		1
Soil Conservation District		<u>(1)</u>

Due Districts or (Refund Due Sheriff)	<u><u>55</u></u>
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

May 2, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 2, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
May 2, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 19, 2002 through May 2, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2002 through May 2, 2003.

Note 4. Interest Income

The Elliott County Sheriff earned \$169 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Elliott County Sheriff collected \$6,535 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Elliott County Sheriff collected \$885 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute.

COMMENT AND RECOMMENDATION

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

May 2, 2003

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's office prepares bank reconciliations

County Sheriff's Response:

No Response.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Morgan-Franklin, LLC
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West Liberty, Kentucky 41472

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
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Honorable Ronnie Stephens, Elliott County Sheriff
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Elliott County Sheriff's Settlement - 2002 Taxes as of May 2, 2003, and have issued our report thereon dated September 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's Settlement - 2002 Taxes as of May 2, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
September 5, 2003

